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Ms. Suzanne Bielstein, Director – Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116



LETTER OF COMMENT NO. 237

File Reference No. 1025-300

Dear Ms. Bielstein,

We would like to take this opportunity to comment on the Proposed Statement of Financial Accounting Standards “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R).” Emerson is a diversified manufacturer of electrical and electronic products with a market capitalization in excess of \$30 billion.

Summary

In summary, we:

- Support the Board’s recommendation to recognize the overfunded or underfunded status of pension and postretirement plans in the balance sheet.
- Strongly object to the proposed elimination of using a measurement date that is earlier than a company’s year-end.
- Believe that disclosure requirements should be reduced and not expanded since the net asset and liability balances would be reflected in the financial statements.

Recognition of Funded Status

We recognize the Board’s objective in recording the net asset or liability on the balance sheet to reflect the financial status of pension and postretirement plans in the financial statements rather than the notes to the financial statements. We support the Board’s decision to use the projected benefit obligation as opposed to another measure to calculate the funded status of pension plans as this is consistent with the accrual of net periodic pension cost. However, we recommend that the Board proceed cautiously when considering making changes to the current accounting standards for postretirement benefits, including pensions in the second phase of the project. Significant changes to these accounting standards without considering practical implementation issues could result in unintended consequences. We believe that the smoothing and estimation techniques embedded in the current accounting model acknowledge the long-term nature of these obligations and provide a practical method to measure and report these obligations. While not theoretically perfect, these techniques were necessary additions to FASB Statements 87 and 106 to make these standards operational. We believe that some smoothing technique is necessary.

However, we would not object to a review of the time period over which items are amortized to earnings. The Board should consider a standard amortization period, such as ten years for all companies. This approach would be more consistent and easier for companies to implement as well as for users to understand.

In addition, it is unclear as to whether or not, in the second phase of the project, the Board is planning on requiring updates to the net balance sheet pension asset or liability amounts on a quarterly basis. We strongly object to this potential consideration and urge the Board to not consider this in the second phase of the project. Updating the pension amounts on a quarterly basis would be extremely difficult for the same reasons as discussed below with regards to eliminating the early measurement date.

Measurement Date

We strongly disagree with the proposed elimination of using a measurement date that is earlier than a company's year-end. We believe that the provisions of FASB Statements 87 and 106 that allow measurement as of a date that is not more than three months earlier than the company's statement of financial position should be retained. The option to use an earlier measurement date is a practical alternative for preparers of financial statements. Unlike other assets and liabilities that are measured as of the fiscal year-end date, pension assets and liabilities require interaction of various parties and are based on several assumptions and factors. The process of selecting assumptions, performing calculations, gathering and verifying information about the fair value of plan assets and the benefit obligations, as well as scrutinizing the information prior to including it in the financial statements is very time consuming. This is especially true for large multinational companies who have numerous (i.e. over 50) defined benefit plans (and as a result several different actuaries and asset trustees) in various countries around the globe. Systems and processes have not developed as seamlessly as you may think from the 1980's. Our organization is intentionally very decentralized, and although we continue to improve the process, it takes three full months to collect, summarize, and analyze the data for all plans worldwide. An earlier measurement date provides the additional time to ensure the information is reliable and accurate.

We realize that the markets can move abruptly at any point in time, yet, even under this proposal, abrupt changes could also occur from the fiscal year-end measurement date until the financial statements are issued. Therefore, eliminating the three month early measurement date does not solve the basic issue of potential changes from when the assets are measured and when they are presented in the financial statements. We believe financial statement users are more concerned with the long-term trend in the funded status rather than the amount as of a specific date.

In addition, with the accelerated reporting deadlines for SEC registrants, the proposed change would put an increased burden and costs on companies as they would be required to gather and review the necessary information in a compressed timeframe and leave their accounting records open until the fair values have been determined. Therefore, if the proposed change is made, the Board will need to address the concerns regarding the timely availability of fair value for plan assets, particularly real estate and venture capital investments. Further, the argument that the proposed change will increase the comparability of companies with similar fiscal years ignores the fact that companies may sponsor several different types and numbers of plans so the increased comparability may be minimal. We believe that the costs and increased burdens of this proposed change far outweigh the perceived benefits, especially for assets that will be invested for a very long time.

Furthermore, we strongly disagree with the notion that two valuations would need to be performed during the year of the change in measurement date. We believe that not only would this be costly, but more importantly, it is not necessary. Although, our measurement date is three months prior to the fiscal year-end date, our pension expense recorded is for a full twelve months through the end of the fiscal year. It is

not a quarter behind. Therefore, including an adjustment to retained earnings for the fourth fiscal quarter would be double counting that period's expense. The annual actuarial valuation should simply be extended and any actuarial gains or losses for the fifteen month period to fiscal year-end should be taken into consideration when setting pension expense for the next year. We would encourage the Board to reconsider this recommendation.

Disclosures

We believe the relevant information about pension plans has been disclosed since the inception of FAS 87. The problem is users never made the effort to understand the voluminous disclosures until the markets experienced a severe decline. If the final statement requires employers to recognize the funded status of pension and postretirement plans in the financial statements, we would expect the number of required disclosures to decrease rather than increase. The rationale for the already significant amount of required disclosures was to give financial statement users information necessary to analyze and understand those balances since they were not recorded in the financial statements. Therefore, we believe that the Board should work to eliminate overly complex disclosures, provide only the relevant information that will assist the financial statement users in their analysis and eliminate redundant disclosures. In 2001, the FASB-sponsored *GAAP-SEC Disclosure Requirements* report stated that "disclosure requirements that are redundant are unnecessary and create confusion and wasted effort." Also at the same time, Mr. Robert Herz stated that "the report is being sent to the SEC, FASB, and AICPA for them to take action in eliminating existing redundancies and to prevent their creation in the future." (emphasis added)

This proposal eliminates the need for disclosures about the minimum liability, as well as the reconciliation of the funded status to the balance sheet. The only new disclosures we would suggest are total projected pension expense for the following year and the amount of unrecognized actuarial gains and losses and prior service cost, as of the most recent year-end only. Therefore, we recommend that the Board consider the following comments with respect to the additional disclosures in the proposal.

- Eliminate the proposal to disclose the estimated amortization of prior service cost and actuarial gains and losses expected to be recognized as a component of net periodic cost in the following year. Instead, simply disclose total projected pension expense for the next year. This is the meaningful information.

We also believe that the current required interim pension expense disclosure is unnecessary and should be eliminated since the amounts do not change significantly. Most preparers simply divide each of the annual components of pension expense by four and report that each quarter. This is extraneous and provides no value. As with any item, only material changes should be reported quarterly.

- Eliminate the proposal to break out prior service cost and actuarial gains and losses separately in rolling forward the change in equity. Providing this information is extraneous and adds more complexity. If necessary, provide the breakdown of these unrecognized items in the notes as of the most recent year-end only (as indicated above).
- Eliminate the proposal to require in the notes for postretirement benefits, disclosure of the accumulated amounts recognized in other comprehensive income. The essential information for items included in other comprehensive income is provided by the current disclosure requirements of FASB Statement No. 130, *Reporting Comprehensive Income*. Duplicative disclosure of these items is not necessary, nor does it provide the users with any added benefits. This also

contradicts the FASB's and SEC's stated goals to reduce redundancy in companies' financial statements.

However, if this disclosure is required in the final statement, we believe the Board should make it clear that the disclosure is only required on an annual basis and not for each interim period.

Retrospective Application

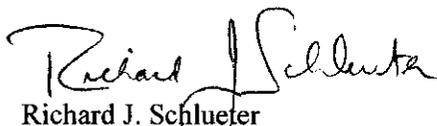
The proposal notes that the requirements of the statement shall be applied retrospectively for all financial statements presented pursuant to the requirements of FASB Statement 154, *Accounting Changes and Error Corrections*, unless it is impractical to do so. We believe that overall, restatements cause confusion and that the rules to require restatements should be used selectively. At a minimum, companies will be required to restate five years of information for the SEC, and potentially as many as eleven years, if an eleven year summary is provided to investors in the annual report. We do not believe the changes suggested in the proposal warrant restatement, and therefore, we encourage the Board to reconsider and when a final statement is issued, require that the changes be applied prospectively as of the end of the year of adoption.

Effective Dates

The proposal states that the requirement to change the measurement date to the year-end reporting date would be applied for fiscal years beginning after December 15, 2006, for public entities. As we outlined above, we strongly urge the Board to reconsider eliminating the ability to use an earlier measurement date. However, if the change is made, we would encourage the Board to allow public entities to have an additional year to implement the change. Due to the number of plans of global companies, the process to undergo such a significant change in policies and procedures and coordination with outside actuaries and trustees will take a significant amount of time and effort. Adequate time is needed to ensure that the proper accounting and internal control procedures are in place and operating effectively before complying with such a change. However, we reiterate that such a change would be costly, impractical and provide little benefit to end-users.

We appreciate the opportunity to respond to the working draft and trust that our comments will be seriously considered in future Board deliberations on this issue.

Sincerely,



Richard J. Schlueter
Vice President & Chief Accounting Officer

cc: Walter J. Galvin
Senior Executive Vice President & Chief Financial Officer